

**ELECTRONIC FILING FOR CHARITIES AND NON-PROFITS**  
**FREQUENTLY ASKED QUESTIONS**

**A. Modernized e-File, Description and Benefits**

**1. What is e-file for charities and nonprofits (tax-exempt organizations)?**

The 990 series of forms are used by tax-exempt organizations, including charities, private foundations and other nonprofit organizations, to provide information about their programs and activities to verify that they are operating in accordance with their tax-exempt purpose. Information on these returns is disclosable to the public as provided by law.

IRS e-file is the name for the electronic filing of tax and information returns. When a nonprofit organization e-files, it sends its information return data to IRS electronically instead of on paper forms. In 2004 IRS started a new e-file system for tax-exempt organizations and corporations, referred to as Modernized e-File (MeF). MeF is a web-based system allowing electronic filing through the Internet. MeF uses the widely accepted XML format, a standardized way of identifying, storing and transmitting data. MeF also currently accepts filings through IRS' existing Electronic Management System (EMS).

E-file became available for most charities and non-profits in February 2004. Exempt organizations can e-file Forms 990, Return of Organization Exempt from Income Tax; 990-EZ, Short Form Return of Organization Exempt from Income Tax; 1120-POL, U.S. Income Tax Return for Certain Political Organizations; Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation; Form 8868, Application for Extension of Time to File an Exempt Organization Return; and the extension form associated with the 1120-POL - Form 7004, *Application for Automatic 6-Month Extension of Time To File Certain Business Income Tax, Information, and Other Returns*.

Certain tax-exempt organizations are required to electronically file as explained in these FAQs. With a few exceptions, all tax-exempt organizations that file Forms 990, 990-EZ, 990-PF, or 1120-POL can file electronically.

IRS e-file is available to tax-exempt organizations that prepare and/or transmit their own returns and to those that rely upon a tax professional to prepare and/or transmit their returns.

**2. What are the benefits of e-file?**

E-file is faster, easier and more accurate than filing a paper return.

E-file makes compliance with reporting and disclosure requirements easier by eliminating the need to make copies, assemble all of the appropriate schedules and attachments, and pay for postage. Organizations can comply with public disclosure requirements by posting electronic forms on the web.

E-file results in benefits for both IRS and taxpayers, including:

- More explicit error conditions - New error code explanations pinpoint the location of the error in the return and provide complete information in the Acknowledgement File.
- Faster acknowledgements - Transmissions are processed upon receipt and acknowledgments are returned in near real-time. No more waiting for once or twice daily system processing cycles.
- Built-in accuracy checks - Paper Form 990 returns have an average error rate of 27 percent. Built-in accuracy checks in electronic return preparation software catch the majority of taxpayer errors before the return is submitted.

### **3. Are there tax-exempt organizations that cannot file Forms 990 or 990-EZ electronically?**

Most tax-exempt organizations will be able to file electronically. Exceptions include the following:

- Short-year/short period returns
- Returns with tax periods prior to December 2003 (beginning January 2007, returns with tax periods prior to December 2004 will not be accepted)
- Name change returns
- Amended returns – will be accepted in 2007
- Final returns – will be accepted in 2007

### **4. Can my state return be filed electronically?**

Although dependent upon each individual state's ability to receive electronic filings, Modernized e-File's Fed/State System for businesses and tax-exempt organizations was implemented in January 2006. The Fed/State System permits transmitters to submit multiple federal and state return types within one transmission.

States that choose to participate must complete a registration and testing process before opening Fed/State Filing. Participating states will be listed on the IRS Web site as they complete this process.

### **B. e-File for Exempt Organizations, Submitting an Electronic Return, Using a Tax Professional, or Preparing Your Own Return**

### **5. How do I submit an electronic return? Does a tax-exempt organization need special software to file an electronic return?**

The IRS will accept returns from either a third party or directly from the tax-exempt organization. For a complete list of IRS approved e-file providers, go to [e-file for Charities and Nonprofits](#), then click on [Approved IRS 990 e-file Provider](#). This web page is continuously updated as new providers are approved, and includes links to companies who offer e-filing for charities and non-profits. Tax-exempt organizations that purchase tax preparation software and prepare their own return should discuss the various electronic filing options with their software vendor as soon as possible.

If the tax-exempt organization uses a tax professional to prepare the return, it does not need special software to file electronically. The tax-exempt organization's tax professional will need to use software approved for electronic filing, and also be an [IRS Authorized e-file Provider](#).

Tax professionals who plan to file Forms 990, 990-EZ, 990-PF or 1120-POL electronically must submit a new or revised electronic IRS e-file application. This is a one-time registration process and you must apply at least 45 days before you plan to electronically file. Log on to [www.irs.gov/efile](http://www.irs.gov/efile); click on e-Services, and then Registration.

Tax-exempt organizations who meet the definition of large taxpayer can file their own returns. See [Section D](#) of these FAQs.

#### **6. How do I submit attachments, explanations, and schedules required with my return?**

In all situations where you are asked to provide an explanation or description, the software will prompt you for the necessary information and automatically creates the necessary "attachment". We refer to this as a *structured attachment*. In all cases, the electronic Form 990 provides more space than the paper return for required explanations and descriptions. In addition, the electronic Form 990 includes up to ten General Explanation Attachments. Use of these is optional, but each provides approximately thirty pages filers can use to provide any additional explanations or descriptions as desired.

#### **7. How do I sign my return?**

The most convenient way for you to sign your electronic return is to use an electronic signature Personal Identification Number (PIN) -- and it's completely paperless! Your tax preparer can answer any questions you have about electronic signatures. In addition, the IRS will accept a scanned Form 8453 signature document, which must be in PDF format. This option is available to filers who elect not to use a PIN to sign the return or who use an On-Line Provider to file.

### **C. Tax-Exempt Organizations Required to e-File**

#### **8. Which tax-exempt organizations are required to file returns electronically?**

In January 2005, IRS released temporary regulations that require certain tax-exempt organizations to file annual exempt organization returns electronically beginning in 2006.

For returns due on or after December 31, 2006, the regulations require tax-exempt organizations with total assets of \$10 million or more (\$100 million in 2005) who file at least 250 returns annually to file Forms 990 electronically. In addition, private foundations and charitable trusts will be required to file Forms 990-PF electronically regardless of their asset size, if they file at least 250 returns annually.

The electronic filing requirements apply only to entities that file at least 250 returns, including income tax, excise tax, employment tax, and information returns, during a calendar year. All original returns filed by a tax-exempt organization during the calendar year are counted. Corrected or amended returns are not counted.

Example: If a tax-exempt organization that meets the total assets criteria has 245 employees, it would be deemed to file 250 returns because each Form W-2 and quarterly Form 941 is considered a separate return; therefore, the organization in this example files a total of 250 returns (245 W-2's, four 941's, and one Form 990.)

In addition, the controlled group provisions that apply to taxable corporations do not apply to tax-exempt organizations in this context. Thus, the 250 return threshold is determined by reporting entity only.

**9. Will the IRS grant waivers releasing tax-exempt organizations from the e-file requirement?**

[Notice 2005-88](#) establishes criteria under which tax-exempt organizations can request waivers from the electronic filing requirement:

- Where the exempt-organization can not meet electronic filing requirements due to technology constraints; *or*
- Where compliance with the requirements would result in undue financial burden on the filer.

**10. What actions should a tax-exempt organization take to ensure it is ready for filing its return electronically?**

That depends on whether the tax-exempt organization will use a tax professional to prepare its electronic return or the tax-exempt organization plans to prepare its own return.

A tax-exempt organization that plans to use a tax professional to prepare its electronic return should check whether the professional is an IRS Authorized e-file Provider.

A tax-exempt organization that plans to prepare its own return should discuss the various electronic filing options with its software vendor as soon as possible and take steps to register and apply for electronic filing.

**11. What happens if a tax-exempt organization required to e-file fails to comply?**

Tax-exempt organizations that are required to file electronically but do not are deemed to have failed to file the return. This is true even if a paper return is submitted. For organizations with gross receipts exceeding \$1 million, the penalty for non-filing is \$100 for each day the failure continues, up to a maximum of \$50,000 per return. The penalty begins on the due date of the return.

In addition, the person responsible for non-filing will be charged a penalty of \$10 a day up to a maximum of \$5,000, unless he or she shows that not complying was due to reasonable cause.

#### **D. Tax-Exempt Organizations that Meet the Definition of Large Taxpayers**

##### **12. What is the IRS's definition of a large taxpayer?**

For purposes of electronic filing, the IRS defines a large taxpayer as a business or other entity with assets of \$10 million or more, or a partnership with more than 100 partners, which originates the electronic submission of its own return(s).

##### **13. How does a large taxpayer "originate" the electronic submission of its own return(s)?**

After a large taxpayer finishes preparing and signs its return, tax preparation software approved for electronic filing will provide the necessary instructions to "originate" the electronic submission of the return and authorize the filing of the return via IRS e-file. During this process the electronic return data is converted into the format defined by IRS for electronic filing.

According to [Publication 3112](#), *Application and Participation in IRS e-file*, the taxpayer originates the electronic submission of a return by:

- Electronically sending the return to a transmitter who will transmit the return to the IRS;
- Directly transmitting the return to the IRS; or
- Providing a return to an Intermediate Service Provider for processing prior to transmission to the IRS.

##### **14. Are corporate officers or principals of the firm required to complete the registration and application process required for large taxpayers to participate IRS e-file?**

No. Tax-exempt organizations meeting the definition of large taxpayer may assign a responsible official who will complete the online registration and application process. The responsible official need not be a corporate officer or a principal of the firm.

##### **15. If a tax-exempt organization meets the definition of large taxpayer will IRS perform the suitability checks discussed in Publication 3112?**

No, these suitability checks are not performed on tax-exempt organizations meeting the definition of large taxpayer, or the responsible official, delegated official, corporate officer or principals of the firm because they are required to e-file their return and do not prepare returns for profit. IRS only performs the suitability checks discussed in [Publication 3112](#) on applicants that prepare returns for profit.

##### **16. What additional information is available for large tax-exempt organizations – those that prepare their own returns?**

IRS has a guide for corporations that meet the definition of large taxpayer, titled [IRS e-file for Large Tax-Exempt Entities Filing Their Own Information Returns](#).

**E. Sources for Additional Information on Charities and Nonprofits e-file**

**17. Will the IRS respond to questions concerning e-file?**

IRS provides e-mail addresses where interested parties can submit questions concerning exempt organization e-file. Tax-Exempt Organizations (Forms 990, 990-EZ, 990-PF) can email questions about e-file to: [te/ge-eo-efile@irs.gov](mailto:te/ge-eo-efile@irs.gov). Note: This email service is for e-file related questions only, not account or tax law questions. Although individual responses may not be possible due to the volume of questions submitted, IRS will post answers to frequently-asked e-file questions on this web site.

For help in completing Forms 990, 990-EZ, 990-PF, call 1-877-829-5500.  
For technical questions about filing your return electronically, call the IRS e-Help Desk 1-866-255-0654.